

This record is a partial extract of the original cable. The full text of the original cable is not available.

011542Z Dec 04

UNCLAS SECTION 01 OF 02 ANKARA 006673

SIPDIS

SENSITIVE

USDOC FOR 4212/ITA/MAC/OEURA/CPD/DDEFALCO
TREASURY FOR RADKINS AND MMILLS
NSC FOR BRYZA AND MCKIBBEN

E.O. 12958: N/A

TAGS: [EINV](#) [ECPS](#) [PGOV](#) [TU](#)

SUBJECT: TURK TELECOM FINALLY TO BE PRIVATIZED?

REF: A. ANKARA 6491

1B. ANKARA 6480

11. (SBU) SUMMARY. The long-awaited opening of the tender process for the privatization of Turkey's fixed line telecom monopoly, Turk Telecom (TT), was announced on November 25, with the Privatization Administration (PA) seeking bids through the end of next May for a 55 percent block sale to a "strategic investor." The road toward privatizing TT has since the 1990's been fraught not only with repeated delays, but also with legal obstacles, political sensitivities, internal wrangling over tender specifications, and outright cancellations of sales. The GOT's dubious track record on efforts to privatize TT as well as its other major state-economic-enterprises (SEEs) (ref A) casts doubt on the likelihood of a successful outcome.

GOT Opens the Tender Process

12. (U) According to the PA's November 25 tender announcement, the GOT will accept bids for a 55 percent block sale of TT until May 31, 2005. Interested parties must submit preliminary bids by January 11, 2005 with due diligence beginning on February 1. The GOT plans to hold a closed bidding process and will require bidders to sign confidentiality contracts. Pre-qualification criteria for

SIPDIS

applicants require that the aggregate of the total assets of an applicant should be no less than \$500 million with an aggregate shareholder's equity of at least \$250 million. An applicant or a joint-venture (JV) member having not less than a 5 percent interest in the JV should have at least three years experience in managing or operating a fixed line or mobile telecommunications company with at least two million lines or have controlled, for a minimum of three years, a fixed line or a mobile telecom company with at least two million lines. A \$30 million bid bond is also required. The two largest holding groups in Turkey, Sabanci group and Koc group, have reportedly purchased a tender document and are expected to make a joint bid for TT.

13. (U) TT's cable TV unit, "Kablonet," will remain outside the scope of the tender. TT's Internet service provider (ISP) unit, however, will remain within the scope of the tender. There had been disagreement between the Competition Authority (CA)--the independent competition regulator--and the PA, and between the Telecom Authority (TA) and the CA during the drafting stage of the tender specification process over whether or not these units should be sold separately. Whereas the CA recommended that TT be broken up and its cable and ISP units be sold separately, the PA wanted to put a divestment requirement in the bidding document and require the purchasing company to sell the cable unit after one year. For its part, the Telecom Authority advised against separate sales of the cable and ISP units. Before the launch of the tender, the Transport Minister, who is also responsible for telecoms, sought to mitigate the potential worry the internal conflict could cause investors by announcing that the differences between the CA and TA had been resolved.

Turk Telecom: The Road to Privatization

14. (SBU) The long process for the privatization of TT, has been the prime example of Turkey's underperforming privatization program (reftel). Following two failed attempts to sell 20 percent of TT in September 2000 and 33.5 percent in May 2001, the GOT first targeted a new tender for May 2004. Though the tender process was finally opened in November, it was preceded by a long period of inaction and then numerous delays. In September, the GOT had announced its plans to open tenders for the privatization of TT in the first week of October. By mid-October, the GOT retracted its

plans and said that they would invite tenders for a fifty-five percent block sale of TT by the beginning of November.

15. (SBU) After the failed attempts to sell shares of TT, the GOT made some improvements to help make the framework for privatization more favorable. For example, the GOT passed a law in July 2004 which made it possible for foreign investors to purchase 100 percent of a state-owned company, which is significant since many foreign companies have shown an interest in TT and because the TT privatization is widely-considered among the most politically-sensitive. The scope of the GOT-retained "golden share" was also narrowed so as to only be active in cases where majority shareholders sought to change the articles and ownership of the company. PA experts admit that the cash flow generated by TT--reported to be well in excess of \$1 billion per year--is an important contributor to the GOT's treasury, however, the GOT has reportedly remained very enthusiastic and supportive of privatizing TT.

16. (SBU) In a meeting with EconOff, Avea General Manager, Cahit Paksay, was bullish on a Turk telecom privatization. Paksay noted that the GOT is serious about privatizing TT and that they had not created unrealistic expectations for the sale this time around. Paksay said the potential buyer would enjoy the extensive, brand-new copper line infrastructure and monopoly position of TT and claimed that for the latter reason in particular, company's like Telekom Italia were very interested in TT. Noting that his bullishness depended on TT retaining its fixed lined monopoly, he saw Turkey following the European model where the entrenched monopoly would maintain a dominant position.

Comment

16. (SBU) The GOT's announcement of the opening of the TT tender process is only the first step in a long road ahead. Sales of SEE's have historically been stalled in the courts because of labor grievances and TT privatization has been no exception. The PA must undertake an aggressive public relations campaign to allay the concerns of the 61,000 TT employees who would be affected by the company's privatization. In addition, some analysts believe that the price for TT could end up being as low as \$2 billion given the current state of the global telecom industry. Though the PA says the GOT remains enthusiastic about the sale, a perceived low price for one of the state's "crown jewels" may still pose as an obstacle to TT's privatization, as it did in the GOT's decision last year to cancel the tender of Tekel's tobacco operations. Even if the price is right, the GOT may also encounter resistance from elements in the Turkish establishment who consider Turk telecom to be of strategic importance. Another privatization challenge is the lack of clarity on the GOT's plans for liberalizing Turkey's telecom sector (ref B), creating potential uncertainty for how investors can value TT. These concerns and a long history of unsuccessful attempts to privatize TT dating back to the early 90's do not inspire confidence this time around. If, on the other hand, the GOT succeeds, it will be a watershed event, giving credibility to the privatization program and opening the way for badly-needed modernization of the Turkish telecommunications sector.

EDELMAN